

# Role of an --- FHA-Approved 203(k) HUD Consultant

A loan officer/customer/real estate agent needs to understand the significant role of an FHA-approved 203(k) HUD Consultant in the FHA's 203(k) Renovation Mortgage Insurance Program. The Consultant is a crucial link between the homeowner, contractor(s), and lender and is pivotal in steering the rehabilitation process.

The Consultant's extensive responsibilities, which include property inspection, feasibility study preparation, architectural exhibits, work write-ups, cost estimates, draw request inspections, and change orders, are all geared towards ensuring that all work meets FHA requirements. It's important to note that any Consultant working on a 203(k) project must be listed on the FHA-approved 203(k) Consultant Roster.

The 203(k) Renovation Mortgage Insurance Program is a renovation program for homebuyers and homeowners. It allows them to purchase a property and finance its renovation with the same mortgage or to refinance and repair their current home. The program is also suitable for homeowners who wish to remodel rather than move or make energy-saving improvements.

## Before loan closing

the Consultant's responsibilities are comprehensive, including performing an on-site property inspection, addressing deficiencies, certifying the condition of major systems, and ensuring all required building permits are obtained before work begins. Understanding the role and responsibilities of the 203(k) Consultant is crucial for successful 203(k) loan transactions.

## Renovation Program Types

There are two types of 203(k) Renovation Programs: Standard 203(k) and Limited 203(k). The Standard 203(k) is designed for structural repairs or major renovations, while the Limited 203(k) is for minor or nonstructural repairs and has a maximum renovation cost of \$35,000 (\$75,000 after 11/4/2024)

Standard 203(k): Finances structural repairs or major renovation; is designed for a home that requires repairs of at least \$5,000; has no maximum renovation cost; and uses an FHA-approved 203(k) Consultant.

Limited 203(k): Financing for a home needing minor renovation or nonstructural repairs, costing no more than \$35,000 (\$75,000 after 11/4/2024). A consultant is not required while using a 203(k) Limited; lenders and homeowners find a consultant to be a valuable addition to the process in many situations.

## Optional Feasibility Study

If the homebuyer is unsure of the repairs the home will need, and their costs, the 203(k) Consultant can complete an optional feasibility study to identify the FHA-required repairs. When the borrower or lender requests to determine if the 203(k) project is financially feasible, the Consultant must prepare a feasibility study.

## Work Write-Up and Cost Estimate

The Consultant must prepare and review the necessary architectural exhibits. If not qualified to prepare them, the Consultant must obtain the architectural exhibits from a competent subcontractor. Examples include but are not limited to, septic certifications, termite reports, foundation certifications, and engineering reports.

Based on this information, the Consultant must prepare a work write-up that addresses any of the work items on the 35-Point Checklist and those on the homeowner's project proposal. On the work write-up, each work item must have a reasonable cost estimate for the area in which the property is located, and the labor costs and itemized cost of materials must be separately identified. The work write-up and cost estimate must include the work performed per the project proposal. Health and safety issues must be addressed before any other work items.

## After the mortgage closes

the Consultant's responsibilities include reviewing the lender's request for a draw of funds, inspecting the work for completion and quality, keeping the lender informed of the rehabilitation's progress, reviewing proposed changes, and preparing change orders for the lender to approve if modifications to the work write-up are requested.

When the contractor requests a draw, the contractor or the borrower must reach out directly to the HUD Consultant. The HUD Consultant will schedule a draw inspection with the borrower/contractor. Once the inspection is completed, the HUD Consultant will prepare the draw documents, lien waivers, change orders, etc., and send them to the borrower and contractor for signatures. He will then send all signed draw documents, photos of the inspection, and any change orders to our draw department to get the draw payment processed. This will be the same process for all allotted draws for the project.

\*\*\*Please note- any change orders not considered health and safety will be paid out at the end of the project. We must ensure enough contingency funds for any unforeseen issues arising during the project.



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Loan approval and terms are dependent upon borrower's credit, documented ability to repay, acceptability of collateral property, and underwriting criteria. FCM NMLS ID 629700